FIVE STEPS TO HOMEOWNERSHIP

Get the Facts on Closing

The closing, also known as the settlement, is the legal process of transferring ownership of a home from one person to another. It is the last step in getting your mortgage and actually becoming the owner of your new home. You'll probably see and sign more legal documents at your closing than at any other single event in your life. You'll have to pay a number of fees to close that will be listed in your Closing Disclosure (CD). These factors can make the closing concerning, but understanding what to expect will help your experience run smoothly.

NEW TIMING REQUIREMENTS

Generally speaking, the borrower must receive the CD at least three business days before "consummation" of the loan. Federal Truth in Lending Act rules define "consummation" as the time that a consumer becomes contractually obligated to a credit transaction. Applicable state law governs when that occurs.

Note: The three business day period does not apply to timeshares or instances where the closing disclosure may be revised without a new three business day period. Under the rules after the first closing disclosure is provided, the borrower is to be provided any corrected disclosure at or before consummation. Additionally, under the following circumstances, the consumer is required to have a new disclosure with a new three business day review period: (1) when the Annual Percentage Rate (APR) exceeds certain thresholds as defined in the rules; (2) the loan product changes; or (3) a prepayment penalty is added.

PREPARING FOR CLOSING

It is important to remember that this new disclosure process is likely to add time to the completion of your loan, particularly as the new process is being introduced. Before you reach the closing table, you should be sure that your future home is in the condition promised and that the terms of your loan are nailed down so you are

FEES AND TAXES

The fees listed here are typically associated with closings throughout the country. You should be delivered or mailed an LE containing your estimated closing terms and costs from your lender within three business days after you apply for your mortgage. You can get an exact figure for all final terms and costs on your CD.

- **Application Fee.** **This fee covers the cost to process your application and in some cases includes the cost of the property appraisal and credit report. Only a reasonable charge for a credit report may be charged before you notify your lender of your intent to proceed.**
- **Appraisal Fee.** **This charge covers the costs of an independent appraisal of the home you're buying**
- **Loan Origination Fee.** **Usually a percentage of the loan amount, this covers the costs associated with completing your loan.**
- **Discount Points.** **Paid to the lender to obtain a lower stated interest rate, the "points" can be paid when you close. If you pay points, you are prepaying finance or interest charges. One point is 1 percent of the value of the mortgage (for example, $1,000 is equal to one point on a $100,000 mortgage).**
- **Taxes.** **Local governments generally charge transfer and recordation taxes when a home changes ownership. In some parts of the country, these taxes can be quite substantial. These taxes are in addition to real estate taxes which may be due on the property. You cannot reduce transfer and recordation taxes but you may be able to negotiate with the seller to share them when you make your offer. Some states require either the seller or the buyer to pay these taxes or require they be split between the two parties.**

You can expect to pay other fees or costs at your closing not listed here. No matter, all fees to be paid at closing should be disclosed in your CD.

able to close on time. Here are a few important tips to keep in mind:

- Avoid last minute changes to the loan to avoid delay and prevent the need for an additional three business day review period
- Work with your real estate agent and the seller's agent to conduct home inspections, order reports (e.g., pest inspection), and clear any contingencies as early in the process as possible
- If possible, schedule your final walk through well before the CD is issued
- Tell your lender as soon as possible about any changes to the transaction that you think might impact the loan or the closing

Who Attends the Closing

Who attends your closing will vary from state to state. Often a settlement or closing agent, an escrow agent, or in some cases a notary will be present. Some states also require that an attorney be present. The lender will provide you with a list companies that provide closing services but you are allowed to select your own so long as the lender consents to work with your choice. The seller, or someone representing the seller, is usually present as well. Your real estate agents may or may not attend.

What Happens at the Closing

The lender or designee, closing agent, escrow agent, notary or attorney will collect all the necessary paperwork from you, the seller and the lender. The lender or designee will send you the CD. This individual will also make sure everything is signed and recorded, that the funds are collected for various fees, and that expenses are properly disbursed. Several things will happen:

- The terms of the agreement between you and your mortgage lender will be confirmed
- What you and the seller agreed to in the sales contract will be confirmed
- Your loan will go into effect and you will receive your mortgage
- Ownership of the home will be transferred

Each of these steps normally involves several legal documents, each with costs for research and preparation. That's why there is so much to review, sign and pay for at the closing and why some states require you to have an attorney present.

The Costs Involved

To complete the closing process for your home and your loan, much must be done, often by specialists, all of whom are paid.

Keep in mind that you can negotiate which party — you or the seller — pays for most of these fees. Moreover, depending on the state the property is located, the seller or buyer may be required to pay specific closing costs, so you should consult with your lender or real estate agent about this issue.

What You Need to Bring

The lender or designee, closing or escrow agent will generally be responsible for ordering all the documents for your closing. You shouldn't have to worry about ordering any of the certifications or other documents. However, you are responsible for the following, which you must bring to your closing:

- Your homeowner's insurance policy and any other insurance policies that have been required for closing, along with proof of payment (if not already provided). In most, if not all, cases the lender will require a review of the homeowner's insurance policy and proof of payment prior to the closing.
- A certified check or electronic transfer for all closing costs and the remaining portion of your down payment. Your CD will have a table that itemizes these costs and makes it clear how much you must bring to closing.

Documents You Will Receive

Three business days prior to closing you will receive your CD. You may receive a corrected version at closing. At closing you should expect to receive one or both of the following:

Mortgage Note: the mortgage note is legal evidence of your mortgage and includes your formal promise to repay the debt. It also spells out the terms of the loan, along with penalties the lender can impose if you do not make your payments on time.

Deed of Trust: this document gives your lender a claim against the house if you do not live up to the terms of the mortgage. It lists the legal rights and obligations of you and the lender, including the lender's right to foreclose on the home if you default on the loan.

A Few Things to Remember After Closing

Make sure you know when your first mortgage payment is due and where to send it. Within a few weeks of closing lenders provide a coupon book or other correspondence clearly listing due dates and the correct mailing address.

Also be aware, that immediately following closing (or perhaps later) your loan may be transferred to another lender or investor of the lender for "servicing," or collection of the loan payments. When you apply for your loan, your LE will tell you in writing if the lender intends to service your loan or transfer the servicing.